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AUTHOR Anderson, Richard E.
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ABSTRACT

Structural and economic problems facing higher education and potential new markets opened by continuing education are discussed, based on a study of 24 public and private institutions. Programming areas in continuing education are distribution requirements, contract training for employees of business, and noncredit courses for the general public. Three levels of cost pertain to instruction, administration, and institutional overhead. The major sources of income are tuition and fees, government subsidies, voluntary contributions, and general organization funds. Four prominent factors in programs that produce a financial surplus are economies of scale, proximity to a population base, economical use of adjunct faculty, and public support. Also important are financial results for evening and off-campus credit programs, general noncredit programs, and community service offerings. However, broadly conceived continuing education cannot be a financial substitute for credit and degree-granting programs that offer credentials. Public support for funding continuing education and legislative requirements for public funds are additional concerns, as are possible conflicts of interest for college faculty who engage in freelance instruction. (SW)

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THE CONTINUING EDUCATION MARKET: Financial and Structural Issues

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by Richard E. Anderson

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

This essay is based on a study of the economics of continuing education at 24 public and private colleges and universities. The analysis of adult education in higher education was, in turn, part of a larger financial evaluation of adult education. The full study gathered income and cost information from 204 directors of adult education and training at public schools, proprietary schools, businesses, hospitals, unions, and professional associations, as well as colleges and universities. In addition, 151 tutors responded to a survey and dozens of public officials and training officers were interviewed. For a complete discussion of this topic, see Richard E. Anderson and Elizabeth S. Kasl, *The Costs and Financing of Adult Education and Training* (Lexington, Mass.: Lexington Books, 1982).

To illustrate some of the structural and financial problems facing colleges and universities, we have constructed a composite example of collegiate continuing education. All Saints University is fictitious, but it is drawn from the actual schools examined and represents real issues.

Continuing Education at All Saints University

All Saints University is a major urban university that emerged from a liberal arts cocoon in the late 1950s. It devised professional and graduate programs, raised admissions requirements, upgraded its faculty, and built dormitories, classrooms, and laboratories.

In the early 1970s, All Saints found itself financially overextended. Many of its traditional students were being lured away by less expensive public colleges or by more prestigious universities. Some high school graduates, aware of the weakening employment prospects for those with college degrees, took jobs immediately after high school. But All Saints is not a poorly managed institution. Its professional programs were well conceived and have been very successful. Effective fundraising has relieved part of the cost/income squeeze.

Yet, as the financial vice president knew too well, there was never enough money to accomplish all the goals the institution had set for itself. Major maintenance projects had been deferred; faculty salaries had lost ground to inflation; and tuition had soared to an uncomfortable, almost embarrassing level of $525 per course.

Recognizing that demographic and financial problems would persist into the 1990s, All Saints looked to its continuing education program to open up new markets. The program was upgraded to divisional status and the director assumed the title of vice president. There were three programmatic thrusts: degree-seeking students unable to attend during the day; contract training with business and industry; and non-credit short courses.

All Saints University had enrolled evening students for many years. Although the academic dean retained control of course content and degree requirements, the new continuing education division assumed coordination and planning responsibility. One action of the new vice president was to open up evening courses to auditors. These students do not take exams or receive credit and pay only one-third of the regular tuition. A "weekend college" was established to reach students who could not attend in the evenings. In addition, both the evening and weekend programs were replicated off campus in a suburb 30 miles to the south.

The efforts to accommodate off-hour degree-seeking students have been enormously successful. The programs have grown and a finan-

Richard E. Anderson is chair of the Department of Higher and Adult Education at Teachers College, Columbia University. He is also coordinator of Joint Programs in Higher Education Finance and former director of the Institute of Higher Education at Teachers. He is author of numerous books and articles on adult education, financial issues, and many other topics and is beginning work on an investigation of tuition "futures."

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ing men and women who teach on a part-time basis; normal coordination and quality-control problems exist, but the university is able to fill these positions with highly qualified people who enjoy contact with a campus.

Students enrolled in evening programs, like their daytime counterparts, must fulfill distribution requirements. These nonmajor courses are usually taught by regular full-time faculty whose courses are under-subscribed during the day. However, many All Saints professors are reluctant to travel to the southern satellite campus; some of these positions are filled with unemployed Ph.D.s or faculty who have full-time positions at other colleges.

The second functional area of the continuing education division is contract training. The vice president has been less successful in building clients for this area. A prominent local financier helped initiate a contract for the university to teach human relations to security guards. This arrangement continues but not without some dissatisfaction on both sides. The professor who assumed most of the instructional burden finds the students dull: "They just want the answer. Frankly, it's just a big pain for me." The corporate director of training thinks the course is too "bookish." The vice president of continuing education acknowledges that situation. "There are other people from industrial psychology I'd like to put in there, but they're so busy I can't pin them down." Another program in industrial design is ready to go but so far no deals have been consummated. Several companies expressed interest but found freelance artists and moonlighting faculty who could fill their needs more cheaply.

The third programming area is non-credit courses for the general public. All Saints offers dozens of these short courses. Most are given one night per week for four to ten weeks. They include chess, photography, tennis, literature, and children's programs.

The volume is high but the income is not. The vice president observes: "These courses are a scheduling nightmare. We're always beating the bushes for instructors and rearranging schedules. But I can't charge more than $50 or so. If I do, enrollment quickly melts away.

"What's good about these courses is that they get people onto the campus. Once they get to know where and who we are, they're more likely to enroll in degree programs. With this in mind, we watch the quality of the noncredit courses as closely as those in the degree programs—maybe more so."

The All Saints University continuing education efforts, and its problems, are typical. The points raised in the example are important in trying to understand the place of continuing education on most college campuses.

have been enormously successful. The programs have grown and a financial analysis shows a large surplus.

How Much Surplus is Generated?

Determining the "surplus" from continuing education is not a simple task. Both the determination of the costs of delivery and the calculation of income generated involve complex considerations. The All Saints example provided some of the general financial results, but for a more detailed analysis, some definitions are required.

All the resources necessary for the delivery of courses (except student time and other incidental expenditures by students) must be considered in evaluating overall costs. Many of these costs are not in the continuing education budget. Institutional overhead is an example. For some decisions, including all these costs is appropriate; for others it is not. However, it is important to understand the full range of resources that go into the delivery of continuing education.

Three levels of cost are easily defined. **Classroom costs** include such resources as teachers, materials used by the learner, rented teaching equipment, and facilities. These costs can be directly associated with a course. **Administrative costs** are incurred in the planning and organizing of the adult education program and include salaries and fringe benefits of administrators and clerical staff, curriculum development, and supplies. **Institutional overhead costs** are a share of the general expenses of operating the college. These include personnel costs that are not directly linked to any of the college's programs, including some administrative offices, and bookkeeping services. They also include a share of maintenance charges, insurance, and general college expenses.

The major sources of income are tuition and fees paid by participants, government subsidies, voluntary contributions, and general organization funds. The proportion of costs covered by different forms of income varies enormously between public and private colleges. Most state institutions are funded by formulas and the effect of continuing education activities on these formulas must be established.

Having determined income and costs, one might think that calculating the surplus or deficit is merely a matter of subtraction; this is not the case. The most appropriate calculation depends on the question being asked or on the designated financial role of continuing education.

The director of continuing education may want to evaluate individual courses to be certain that each covers its direct classroom costs. In our study, when courses were reviewed this way, the average course showed a $1,550 surplus. If continuing education is viewed as an ancillary activity—one that is not part of the direct institutional mission—college administrators may be satisfied if a course covers its own classroom and administrative costs. If the activity absorbs some college overhead, that is an added advantage. All but one of the programs studied would be evaluated favorably using this criterion; the average surplus over classroom and ad-

If collegiate continuing education is well conceived and of high quality, future generations may view the current demographic slump as a fortunate circumstance.

ministrative costs was $1,125 per course.

A more stringent evaluation rule would require full costing. As the number of full-time students declines during the 1980s, colleges will want to fill the ensuing enrollment gap with adult students. If a college is to finance itself in this manner, however, the replacement students must carry their share of institutional overhead. When college overhead charges are added to classroom costs, the distribution of surpluses and deficits changes dramatically. Although the average program earned a small surplus ($315 per course), about half of the programs showed deficits of as much as several hundred dollars per course.

Does the absence of a surplus indicate that the program is a financial failure? Absolutely not. The appropriate financial criterion is a comparison of institutional finances with and without the continuing education program. All Saints University, for example, is typical in its use of full-time, generally tenured faculty to staff many continuing education courses. To the extent that continuing education effectively uses these professors and absorbs some overhead, the institution is better off.

These results do suggest, however, that at least some institutions find it difficult to replace regular day students, dollar-for-dollar, with continuing education students. It also suggests that if colleges can't replace all the revenue from full-time learners, they will have to reduce overhead.

Factors Related to Surpluses

There are four prominent factors in programs that produce a surplus: economies of scale, proximity to a population base, economical use of adjuncts, and public support.

Economists use the phrase "economies of scale" to describe the phenomenon of average costs decreasing with increasing output. Economies of scale can be figured at the program level and at the course level. Seven of the ten programs that were "profitable" with full overhead applied offered more than 340 courses; only three of the "unprofitable" programs were this large. Individual courses change from money losers to gainers as enrollments increase. The most profitable courses studied had average enrollments of 27 students.

A second factor of profitability is proximity to a large population base. Seventy percent of the surplus-generating programs were located in or near large metropolitan areas; only 20 percent of the whole sample were so situated.

Two phenomena appear to be operating here. A greater number of courses allows program overhead to be spread more thinly, thus reducing costs per course. Being near a large urban environment permits a program to offer more courses. However, even programs with few courses find it easier to make money when located near a sufficiently large population. Their strategy is to offer only popular courses. Enrollments are so large that the income generated covers direct costs and a relatively larger share of overhead.

A third factor associated with surpluses is lower faculty salaries. The higher the proportion of courses taught by adjuncts, the lower the total salary costs and the higher the surplus. However, administrators need a better understanding of the relative educational effectiveness of part-time and full-time faculty.

A final factor associated with profitability is the level of public support. Many directors of continuing education at public institutions believe that their programs receive no state support. Although the directors may not see the money, most of these colleges do receive state support as a result of continuing education activities. None of the 16 public continuing education programs evaluated would be able to cover full costs without state income; only three cover classroom and program administration costs and slightly more than half would be able to cover classroom costs without state support. Public support is, by this analysis, an important factor in generating surpluses.

Financial Results by Program

We also asked directors of continuing education to provide financial information about their sub-programs—evening programs for credit, off-campus programs for credit, general non-credit programs, and community service offerings. The All Saints example highlighted some of the results.

Most surpluses are generated from credit-granting instructional activities. Evening programs are clearly the most financially beneficial, despite the fact that instructional costs are 15 percent above average because of a higher ratio of full-time faculty. At public institutions, a major reason for the size of the surplus is that most of these courses are credit-bearing and generate state support. Significantly, administrative costs per course are 40 percent lower for this area of continuing education. There are two reasons. First, the average number of courses in evening programs is much larger than in other areas. As a result, administrative effort is less concentrated. Second, evening courses are less of an administrative burden to the program itself as the curricula are generally set and often repeated term after term with experienced teachers.

Almost all deans of continuing education reported that their school offered non-credit courses but many could not break down the finances separately. The data we did gather shows that non-credit programs are unlikely to generate significant surpluses. Most states do not support general non-credit programming at public institutions. Tuition income is disproportionately low. As in the All Saints example, most directors felt that significantly higher tuition charges would drive away participants. In contrast to the low administrative effort of evening courses, the organization and

4

staging of non-credit courses is quite time-consuming; it may take as much or more effort to present a six-hour workshop as it does a 45-hour course for credit.

Off-campus programs are more carefully planned (financially) than other continuing education activities. A special aspect of these programs is the charge for space rental, which boosts their total costs by about seven percent. This rental charge is quite minimal as many programs use donated facilities. The allocated administrative charge is considerably higher for these programs and is evidence of the extra attention these programs require. They all have off-site directors. Still, off-campus programs produce surpluses because they are designed to produce surpluses. A market is identified. Income and costs are estimated. If the estimates are correct, it continues. If not, it is dropped. Rarely is there an irrevocable commitment to plant or staff to sustain a program that fails to generate a positive cash flow for the home campus.

Community service programming is the fourth area we were able to separately evaluate. Only three colleges in the study had identifiable community service programs. Not unexpectedly, special funding was the predominant income source. Tuition accounted for only 10 percent of revenues. The remaining 90 percent came from federal funds or special (non-formula) state support. The courses (e.g. workshops in citizen education, retirement planning, and family health) usually are short in duration and inexpensive. Instructor salaries averaged $40 per course; administrative costs are also low. These programs just about break even, but allocation of college overhead puts them in the red. Regardless of the absence of surpluses, this is an important area of continuing education programming from which the public benefits are quite high.

Making it Work

Higher education's involvement in continuing education is often explained in educational, philosophical, or even moral terms. In fact, colleges and universities have embraced adult education in order to maintain enrollments and institutional income. This motivation, however, is not cause for reprobation. If collegiate continuing education is well conceived and of high quality, future generations may view the current demographic slump as a fortunate circumstance.

The fact is that we fill the classrooms in degree-granting programs because we are offering more than education—we are offering credentials.

From the programs we have evaluated, it is clear that continuing education can, and usually does, generate revenue to support the traditional college mission. There are, however, reasons to assert that broadly conceived continuing education cannot be a financial substitute for the narrower instructional mission of the past. The reduced significance of credentials for many of the potential new students is one issue to be reckoned with. The limits and intent of public support are others. Finally, administrators must face the problem of controlling their most important resource—the faculty.

Credentials—Advocates of collegiate adult education argue that colleges should use the resources released by demographic shifts to provide learning opportunities for middle-age, middle-income individuals who find they have more free time than those of prior generations; to enrich the lives of senior citizens; to deliver educational services for their communities; or to deliver training for corporations.

Institutions of higher learning can fill these needs. But the income from these activities will seldom replace the income produced by credit and degree-seeking students or from state support. The fact is that we fill the classrooms in degree-granting programs because we are offering more than education—we are offering credentials.

The importance of credentials in the higher education market explains why All Saints allows auditing students (who do not seek credentials) to attend evening classes for one-third of the regular price. Colleges and universities have been granted a monopoly on degree-granting activities by state governments and accrediting agencies. They do not possess a similar monopoly on the delivery of education. In fact, they subsidize the delivery of education by others.

Although credit-bearing instruction is more expensive and commands a significant price premium, the process is not necessarily inefficient. There is an added cost associated with credentialing. The point is that those who want to buy only education without an associated credential will be shopping in different markets, with a different shopping list, and with a different pocketbook. Senior citizens who wish to learn art history or expand their appreciation of Renaissance literature do not want to pay the dean's or registrar's salary. They would be more likely to enroll in a competing program at a public high school or a "Y." The corporation that wants to train its staff in industrial design is similarly disinclined to pay the university's overhead when it can have the same service delivered more cheaply in other ways.

Public Support—Publicly supported institutions are fortunate in that they can offer credit courses to avocational, non-degree seeking students at prices well below full cost. However, these institutions should consider the spirit and intent of public financing provisions and not thirstily take advantage of funding formulas. Using tax support for avocational courses or offering specially tailored programs to corporations does not have the same public policy salience as providing equal educational opportunity or expanding society's knowledge base.

At the public institutions we visited, most of the continuing education activities were well within the bounds of legislative intent. There were, however, some worrisome signs. At several institutions, non-credit tennis courses had been switched to credit-bearing gym courses. Participants' fees went down but state revenues more

than made up the difference. The directors acknowledge the purpose was revenue maximization. One institution was planning an off-campus site in a retirement community that would offer primarily avocational, yet credit-bearing, courses. A number of community colleges were designing training courses for the specific needs of local corporations. It was unclear what effects these efforts would have on the area's economy. What was certain was that the colleges' FTE's, and income, would increase and the corporations' training costs would be reduced.

These examples are not intended to indict avocational programming or cooperative efforts between businesses and colleges. There are, however, temptations to increase public revenue without adequate concern for legislative intent in funding higher education. If continuing education is rapacious in its quest for revenues, we should not expect state and local officials to stand by as disinterested spectators. There will be increased reporting requirements and complicated program and course review procedures. The ensuing bureaucratic tangles will impede the worthwhile educational goals of most public college programs. The obvious recommendation is for restraint and self-regulation.

Using tax support for avocational courses or offering specially tailored programs to corporations does not have the same public policy salience as providing equal educational opportunity or expanding society's knowledge base.

The Faculty—A problem facing both public and private programs is the competition they face from members of their own faculties.

Professional teaching commitments vary from institution to institution. At some research universities, faculty may meet with classes fewer than five hours per week. At some colleges, time in class may be as high as 15 hours. Some of the remaining work week is devoted to course preparation, grading, committee assignments, and other related college activities. For many faculty members, a substantial portion of the remaining time is available for related academic pursuits. This is their time to read and develop their expertise. Some faculty consult or provide services to organizations within and without their immediate professional circle. Clients often provide remuneration for these services. The extra income supplements faculty salaries, which are relatively low compared to those of other professionals.

An occasional abuse notwithstanding, most of these arrangements enhance faculty expertise and are encouraged by higher education administrators. However, if colleges and universities hope to significantly broaden their continuing education activities and reach beyond credit and degree-granting activities, they must reconsider the freedom faculty have in pursuing outside activities for remuneration.

Training programs for professional associations, corporations, and governments all rely on the expertise of college faculty. In most cases, the contract is negotiated privately between the professor and the training organization. As colleges attempt to build non-credit clientele they find that their chief competitors are their own faculty members, and the competition is unfair. The institution must charge enough to pay a portion of the professor's salary as well as a fair share of programmatic and institutional overhead. The professor's personal overhead is paid by the institution. The professor's work arrangement provides time to develop his or her expertise which, in turn, provides ample opportunity for other remunerative applications. As a result, the professor can always undercut the institutional price.

If there is a conflict of interest in faculty offering private training, ultimate discord occurs when faculty are employed by other institutions. In the course of our study, institutions designed to meet the needs of adults. The programs provided special educational assessments and individualized learning experiences. The academic work, when compared with typical classroom instruction, is very labor intensive. Each of these programs relied heavily on the use of adjuncts and most of these adjuncts were faculty members at other institutions.

Controlling faculty is not easy and any attempt to do so could be divisive. Certainly the right to work outside the campus should not be unilaterally curtailed. Administrators may, however, wish to review outside commitments when they involve instruction. Institutional income from non-credit arrangements will rarely be significant if faculty are totally free to engage in freelance instruction.

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The financial problems facing colleges and universities are real and are caused by many factors. Most significant is the overexpansion of the higher education enterprise in the past few decades. Adult students can partially replace the more traditional 18- to 22-year-old college student. As the adult cohort grows, it deserves increasing attention from college administrators. Leaders in the field, such as Malcolm Knowles, Alan Knox, and Jack Mezirow, contend that adults have special learning needs and styles and that they cannot be treated as educational clones of younger students.

College administrators must recognize and deal with these and other significant issues if they expect to reorient their institutions to this new "market." ■